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C O N F I D E N T I A L QUITO 003048

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TAGS: [ECON](#) [EMIN](#) [EINV](#) [EC](#)  
SUBJECT: GOE SUSPENDS FOREIGN MINING OPERATIONS -  
SIMPLISTIC SOLUTION TO COMPLEX PROBLEM

Classified By: Classified By: EconOff Kimberly Barr for reasons 1.4 (b&d)

11. (C) SUMMARY: The Government of Ecuador (GOE) suspended the operations of two Canadian mining companies (one with U.S. investment) in the past week, in response to escalating community protests and violence. Some community residents, supported by domestic and foreign NGOs, have opposed mining operations, purportedly for concerns about possible environmental damage. Operations have been suspended indefinitely and industry insiders expect the suspension to continue at least until the new government takes office in mid-January. Although both the communities and the companies have valid arguments, the handling of the situation by the Ecuadorian government is problematic and sets a worrisome example for activists in other sectors to emulate. END SUMMARY.

12. (C) On December 2, ongoing community protests against Ascendant Copper escalated when security forces reportedly hired by a contractor of the company apparently responded to community protestors with teargas (Ascendant denies involvement). Community residents held 56 of the security company employees hostage in a church for several days. The GOE intervened and suspended Ascendant's operations in order to reduce tension between the community and the company. Hostages were released on December 9. About the same time, protests against Ecuacorriente, another mining company, escalated and the GOE also suspended their operations. Foreign and local NGOs, as well as indigenous leaders, were closely involved in both incidents. In fact, many in the business community and in industry believe foreign NGOs and corrupt indigenous leaders are largely behind these protests.

Ascendant Inherits Problems  
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13. (C) Ascendant Copper, a company established in the Bahamas, headquartered in Colorado, and registered on the Canadian Stock Exchange, has investors from both the U.S. and Canada. Ascendant's concession in the northern province of Imbabura has a long history of problems and opposition by environmentalists. The huge copper deposit sits in a protected forest area on the edge of the Cotacachi-Cayapas Reserve, and major NGOs and powerful local politicians are afraid mining will spoil the area's potential for ecotourism. However, Ascendant asserts the deposit can produce USD 97 billion dollars of copper and is unwilling to give up on the concession. According to Canadian Trade Commissioner Ricardo

Valdez, Ascendant has not yet completed the necessary consultations with the community and therefore has not obtained permits to begin work. In addition, he notes that Ascendant has provided little in the way of social programs. There have been allegations of violence on both sides - from the protestors and the company itself - for some time. Ascendant is reportedly planning to meet with the Canadian Embassy but has not requested a meeting with the U.S. embassy in the past year (although it met with Department officials in Washington on related problems several months ago).

¶4. (C) Valdez thinks that the incoming government will end up closing Ascendant's concession or leaving it in "suspended" status for quite some time (perhaps 6 months or a year) because of the long-standing problems and the difficulty in reaching a satisfactory resolution. He notes the Canadian Embassy will support Ecuacorriente's investment in Ecuador but since Ascendant has not completed the consultative process with the community as required by Ecuadorian law, it appears the GOE could in fact have the right to end Ascendant's concession.

#### Ecuacorriente - A Good Corporate Citizen

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¶5. (C) In contrast to Ascendant, Ecuacorriente reportedly has had no community relations difficulties until a few weeks ago. A fully Canadian company headquartered in Vancouver, it has been in close contact with the Canadian Embassy over the last five years while setting up its gold and copper operations in Ecuador (exploration has been completed and the mine is nearing the production phase). The concession is in the Zamora Chinchipe province in southeast Ecuador and is approximately ten kilometers from the Peruvian border.

Ricardo Valdez asserts that all necessary legal steps have been taken to start operations. Ecuacorriente has established community social responsibility programs, including schools, health programs, and assistance for small and medium enterprises. Opposition to Ecuacorriente's mining operations does not come from the immediate community which benefits from both jobs and social programs, but rather from a community 30 to 50 kilometers away. Valdez attributes the problems largely to the influence of an indigenous Patakuchik Congressman Salvador Quishpe who is politically opposed to mining. In fact, the immediate community met with Energy Minister Rodriguez on December 7 to protest suspension of operations, citing potential loss of jobs and benefits.

¶6. (C) Ecuacorriente would like to transform raw copper into concentrate in Ecuador. It has been approved to receive a 250 million USD loan from the Export Bank of Canada for this project. The project would mean more investment and jobs for Ecuador, but the loan is on hold until suspension is resolved. In response to the suspension, Ecuacorriente has issued a press release stating that they accept the interruption in the name of peace and trust that the state of law will rule. The President of Ecuador's Chamber of Mines, Alejandro Sebastia, projects that the suspension for Ecuacorriente will not be in force for very long.

#### What Happens Next?

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¶7. (C) Incoming Energy Minister Alberto Acosta has reportedly said that he will open a dialogue with stakeholders when entering office in January. Until then, Labor Minister Serrano has said he will hold meetings with both sides but to date has not met with company representatives, only indigenous community leaders. Vice Minister of Mines Carlos Muirragui, a strong proponent of foreign investment in the mining sector, resigned on Monday in frustration over the issue. He told Econoff that he met with the Ministers of Foreign Affairs, Government, Defense, Economy, and Environment a month ago and explained the need to resolve the situation with regard to Ascendant and head off future problems, but that they "didn't understand".

¶18. (C) Alfredo Sebastia met with current Energy Minister Ivan Rodriguez seeking an end to the suspensions. Rodriguez reportedly believes the outgoing administration does not have time to solve these problems and has to perform damage control. Rodriguez is working on a proposal to reform Ecuador's Mining Law to increase the state's participation in mining production, especially during the exploration phase. However, Sebastia notes that during exploration and development phases this may be feasible in the petroleum sector, where firms can see production in 6-12 months, but not for mining where it might take 5-7 years to initiate production. According to industry insiders, mining companies are not necessarily opposed to paying more to the GOE (although they assert that doing so during exploration would be difficult) but want clear rules and a secure investment climate.

¶19. (C) These events have caused a "pause" in the mining industry. The Canadian Embassy reports that other companies considering further expansion in Ecuador, such as Barrick Gold Corporation (Barrick was planning to purchase a concession next to Ecuacorriente), are holding off until the situation plays out. The Chamber of Mines estimates that Ecuador would miss out on USD 1.4 billion in mining investments in the next three years, as well as another USD 50 billion from mining in the following 15 years, should foreign firms withdraw their investments.

¶10. (C) COMMENT: Government actions to "resolve" the situation, suspending operations and passing the buck to the next administration, are a very lame effort to deal with a complex problem. Post accepts that, at least in the Ascendant case, there is a complex and long-standing tension between commercial and environmental matters that appears to have been escalated by actions on both sides. The problem is that the government has not pursued any constructive or conciliatory efforts to ameliorate the tension and perhaps address the concerns of both parties, but instead has sought to "solve" the problem by laying the onus on foreign investors. The GOE mismanagement of the Ecuacorriente matter

appears even more problematic, if indeed the company has managed its relations with the nearby community well and the challenge is coming from outsiders.

¶11. (C) The legal justification used to suspend operations is also disturbing. According to the President of the Chamber of Mines, in Ecuacorriente's case Labor Minister Serrano originally signed a document three weeks ago recognizing that there was a crisis and stating that mining operations would be suspended. This was based on a bylaw of the constitution that states mining operations must cease if there is environmental damage, but no evidence of environmental damage was presented (and Ecuacorriente had completed required environmental reports). This sets a precedent of declaring environmental damage to suspend operations, and might be used in the electricity and petroleum sectors. Furthermore, the press reports that the new Administration will move mining to the Ministry of Environment, indicating environmental interests will take precedence over industry interests in the mining sector. END COMMENT.

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